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**THE RELATIONSHIP BETWEEN BOARD OF DIRECTORS
COMPOSITION AND FINANCIAL PERFORMANCE OF
MALAYSIAN PUBLIC LISTED COMPANIES**

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UUM
Universiti Utara Malaysia

MASTER OF SCIENCE (MANAGEMENT)

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AND FINANCIAL PERFORMANCE OF MALAYSIAN PUBLIC LISTED
COMPANIES**



BY
RANJITA JAYAKUMAR

Universiti Utara Malaysia

Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Sciences (Management)



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PERFORMANCE: AN EVIDENCE OF TOP LISTED COMPANIES IN MALAYSIA**

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ABSTRACT

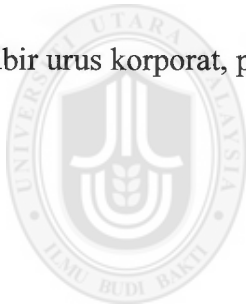
The issuance of the amended Malaysian Code on Corporate Governance (MCCG) in 2007 clearly shows that continuous efforts have been done by the regulators and policy makers to enhance good governance practices in Malaysia. Based on the MCCG, this study investigated the extent of the corporate governance practices and examined the relationship between corporate governance practices and the performance among Malaysian listed companies. In addition, agency theory is used to explain the corporate governance practices and firms' behavior which is based on the agent's action, and the objective of maximizing the shareholders' wealth. This study covers five corporate governance variables which are expected to have relationship with the financial performance of the company. The five corporate governance variables are number of directors, number of independent directors, firm size, leverage and cash flow. Using a sample of top 100 listed companies in Malaysia for the financial year 2009 until 2012, the findings show that firm performance is significantly related to firm size, leverage and cash flow. However, the other two variables which are number of directors and number of independent directors are not significant towards the company performance.

Keywords: Corporate Governance, financial performance, Malaysia

Abstrak

Langkah meminda Kod Urus Tadbir Korporat (MCCG) pada tahun 2007 jelas menunjukkan usaha yang berterusan yang dijalankan oleh pengawal selia serta penggubal polisi bagi meningkatkan amalan urus tadbir korporat yang baik di Malaysia. Berdasarkan MCCG tersebut, kajian ini menyelidik tahap amalan urus tadbir korporat serta perkaitan di antara amalan urus tadbir korporat dan prestasi dikalangan syarikat senaraian awam di Malaysia. Di samping itu, teori agensi digunakan untuk menerangkan amalan tadbir urus korporat dan tingkah laku firma yang berdasarkan tindakan ejen, dan tujuan memaksimumkan kekayaan para pemegang saham. Kajian ini meliputi lima pembolehubah tadbir urus korporat yang dijangka mempunyai hubungan dengan prestasi kewangan syarikat. Pembolehubah yang digunakan adalah bilangan pengarah, bilangan pengarah bebas, saiz firma, leveraj dan aliran tunai. Kajian ini menggunakan sampel 100 syarikat tersenarai teratas di Malaysia untuk tahun kewangan 2009 hingga 2012. Analisis empirikal menunjukkan hubungan yang signifikan ke atas pembolehubah saiz firma, leveraj dan aliran tunai. Walau bagaimanapun, dua pembolehubah lain ialah bilangan pengarah and bilangan penagarah bebas tidak signifikan terhadap prestasi syarikat.

Kata kunci : Tadbir urus korporat, prestasi kewangan , Malaysia



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CHAPTER 1

INTRODUCTION

1.0 Background of the Study

Corporate Governance (CG) plays an important role in the monitoring system of a company. In general, corporate governance covers all necessity of a company's stakeholders and corporate social responsibility. There are many types of stakeholders involved the shareholders, management and the board of directors, employees, suppliers, customers, banks and other lenders, regulators, the environment and the public at large. The existence of corporate governance in the company is like the 'backbone' for them as it will influence the direction of the management of the company. According to Ponnu (2008), corporate governance is important to the company because it supports to control and monitor boards performance in the management throughout the operations.

Malaysia has been one of the fast developing economies in the world as it opened its market with lowered tariffs and alleviated foreign investments requirement. It is important for Malaysia firms to reform their financial performance as the emerging competition in the in both local and foreign market. This will indirectly allow firms to overcome the limitations of their local market in order to reach their targets in the potential markets.

A business environment surrounded by forces of the legal, regulatory, financial and institutional system of a country has an impact on the firm's entire performance. World globalization increases market prospective, trade and investments as well as the availability of the firm

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LIST OF APPENDIX

Sample of Top 100 Listed Companies:

1. MALAYAN BANKING
2. CIMB
3. SIME DARBY BERHAD
4. PUBLIC BANK BERHAD
5. MAXIS
6. MISC BRHAD
7. TENAGA NASIONAL BERHAD
8. IOI CORPORATION BERHAD
9. AXIATA GROUP BERHAD
10. GENTING GROUP BERHAD
11. PETRONAS
12. PPB BROUP BERHAD
13. DIGI
14. KUALA LUMPUR KEPONG BERHAD
15. PLUS EXPRESSWAY BERHAD
16. YTL POWER INTERNATIONAL BERHAD
17. GENTING MALAYSIA BERHAD
18. ARAB MALAYSIAN DEVELOPMENT BANK BERHAD
19. YTL CEMENT BERHAD
20. HONG LEONG BANK BEHAD
21. RHB CAPITAL BEHAD
22. BRITISH AMERICAN TOBBACO
23. TELEKOM MALAYSIA BERHAD
24. PETRONAS DAGANGAN
25. ASTRO
26. HONG LEONG FINANCIAL GROUP
27. NESTLE
28. MMC CORPORATION BERHAD
29. UMW HOLDINGS BERHAD
30. TANJONG PUBLIC LIMITED COMPANY
31. MALAYSIAN AIRLINES
32. IJM CORPORATION BERHAD
33. BERJAYA CORPORATION BERHAD
34. BERJAYA SPORT TOTO BERHAD
35. GAMUDA BERHAD
36. LAFARGE MALAYAN CEMENT BERHAD
37. MALAYSIA AIRPORT HOLDINGS BERHAD
38. PARKSON HOLDINGS BERHAD
39. BERJAYA LAND BERHAD
40. UEM LAND HOLDINGS BERHAD
41. GENTING PLANTATION BERHAD
42. EON CAPITAL BERHAD

43. BATU KAWAN BERHAD
44. AFFIN HOLDINGS BERHAD
45. ALLIANCE FINANCIAL GROUP BERHAD
46. FRASER & NEAVE HOLDINGS BHD
47. SP SETIAGROUP BERHAD
48. TOP GLOVE CORPORATION BERHAD
49. BURSA MALAYSIA
50. BOUSTEAD HOLDINGS BERHAD
51. AIR ASIA BERHAD
52. SHELL MALAYSIA
53. JCY
54. ORIENTAL HOLDINGS BERHAD
55. MALAYSIAN BULK CARRIERS BERHAD
56. UNITED PLANTATION BERHAD
57. KLCC PROPERTY HOLDINGS BERHAD
58. TAN CHONG MOTORS HOLDINGS BERHAD
59. PROTON
60. SAPURA CREST PETROLEUM
61. BINTULU PORT HOLDINGS BERHAD
62. IGB CORPORATION BERHAD
63. STAR PUBLICATION MALAYSIA BERHAD
64. IJM LAND BERHAD
65. KULIM MALAYSIA BERHAD
66. KENCANA PETROLEUM
67. GUINNESS ANCHOR BERHAD
68. MULTI-PURPOSE HOLDINGS BERHAD
69. TITAN CHEMICALS CORPORATION BERHAD
70. LPI CAPITAL BERHAD
71. DIALOG GROUP BERHAD
72. MUDAJAYA GROUP BERHAD
73. MEDIA PRIMA BERHAD
74. KNM GROUP BERHAD
75. MALAYSIAN RESOURCES CORPORATION BERHAD
76. DRB-HICOM BERHAD
77. WCT BERHAD
78. IJM PLANTATION BERHAD
79. YTL CEMENT BERHAD
80. HARTALEGA HOLDINGS BERHAD
81. SUPERMAX CORPORATION BERHAD
82. HAP SENG PLANTATIONS HOLDINGS BERHAD
83. AEON
84. HAP SENG CONSOLIDATED BERHAD
85. SUNWAY CITY BERHAD
86. KFC HOLDINGS
87. WAH SEONG CORPORATION BERHAD
88. KPJ HEALTHCARE BERHAD

89. LINGKARAN TRANS KOTA HOLDINGS BERHAD
90. MASTERSKILL EDUCATION GROUP BERHAD
91. NCB HOLDINGS BERHAD
92. QL RESOURCES BERHAD
93. CARLSBERG MALAYSIA
94. UNISEM MALAYSIA BERHAD
95. POS MALAYSIA
96. JT INTERNATIONAL BERHAD
97. MAH SING GROUP BERHAD
98. MALAYSIAN PACIFIC INDUSTRIES BERHAD
99. MEDIA CHINESE INTERNATIONAL BERHAD
100. TAGB



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LIST OF APPENDIX

3.1 Theoretical Framework

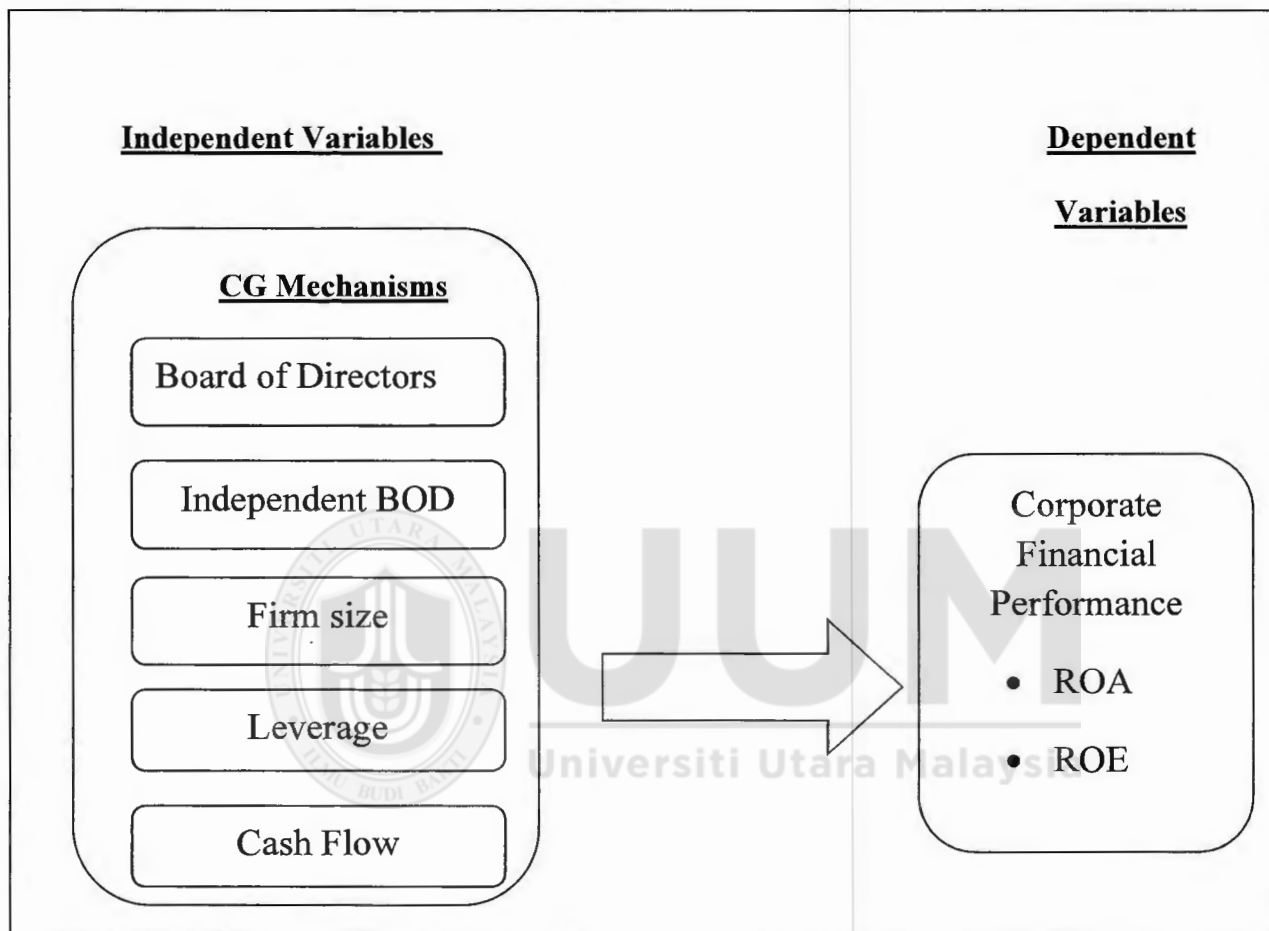


Table 3.2 Sectorial Analysis of the sample

Industry/Sector	No of Companies
Finance	11
Trading & Service	46
Plantation	8
Industrial Product	7
Consumer Product	10
Infrastructure Project Company	2
Construction	6
Property	9
Technology	1
Total	100

Table 3.3 Table of Variables

Dependent Variables	Acronym
Return on Asset	ROA
Return on Equity	ROE
Independent Variables	Acronym
Number of Directors	BOD
Number of Independent Board of Directors	IBOD
Firm Size	SIZE
Cash Flow	CF
Leverage	LV

Table 3.4 Table of Key Concept

VARIABLES	MEASUREMENT
Number of directors	The total number of directors on the board
Number of Independent board of directors (BOD)	$\frac{\text{Number of Independent Directors}}{\text{Total num. of directors}}$
Firm Size	Natural log of total asset
Cash flow	Natural log of total cash and cash equivalent
Leverage	$\frac{\text{Total liabilities}}{\text{Total equity}}$

Table 4.1 Industry Classification

Industry/Sector	No of Companies
Finance	11
Trading & Service	46
Plantation	8
Industrial Product	7
Consumer Product	10
Infrastructure Project Company	2
Construction	6
Property	9
Technology	1
Total	100

Table 4.2 Summary of Descriptive Statistics for Return on Asset

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	100	.0000	.4987	.081570	.0766588
ROE	100	.0000	1.7588	.179871	.2458282
BOD	100	4.0000	14.0000	9.345000	2.0467330
IBOD	100	2.0000	7.5000	4.495000	1.2086494
SIZE	100	19.0681	26.6921	22.418014	1.6240073
LV	100	.0232	.9380	.489487	.2338353
CF	100	8.9619	24.2678	19.803178	2.2935354
Valid N (listwise)	100				

Table 4.3 Correlation analysis of the independent variables

		BOD	IBOD	SIZE	LV	CF
BOD	Pearson Correlation	1	.594**	.173	.125	.126
	Sig. (2-tailed)		.000	.084	.215	.213
IBOD	Pearson Correlation	.594**	1	.273**	.249*	-.012
	Sig. (2-tailed)	.000		.006	.012	.905
SIZE	Pearson Correlation	.173	.273**	1	.553**	.557**
	Sig. (2-tailed)	.084	.006		.000	.000
LV	Pearson Correlation	.125	.249*	.553**	1	.221*
	Sig. (2-tailed)	.215	.012	.000		.027
CF	Pearson Correlation	.126	-.012	.557**	.221*	1
	Sig. (2-tailed)	.213	.905	.000	.027	

Table 4.4 Model Summary ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.503 ^a	.253	.214	.0679807

Table 4.5 Results of regression coefficients for ROA

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.597	.094		6.371	.000
	SIZE	-.023	.004	-.487	-5.514	.000

Table 4.6 Model Summary ROE

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.391 ^a	.153	.108	.2322325

a. Predictors: (Constant), CF, IBOD, LV, BOD, SIZE

Table 4.7 Results of regression coefficients for ROE

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	
1	(Constant)	1.342	.363		3.694
	BOD	-.016	.014	-.131	-1.089
	IBOD	-.011	.026	-.056	-.447
	SIZE	-.059	.021	-.392	-2.813
	LV	.403	.121	.383	3.318
	CF	.009	.013	.080	.673

Table 5.1 Summary of Findings

Hypothesis		Findings
H1: There is a significant relationship between corporate financial performance and number of board of directors towards company performance.		Rejected
H2: There is a significant relationship between corporate financial performance and the independent boards of directors (BOD).		Rejected
H3: There is a significant relationship between corporate financial performance and size.		Accepted
H4: There is a significant relationship between corporate financial performance and leverage.		Accepted
H5: There is a significant relationship between corporate financial performance and cash flow.		Rejected



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